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Impacts of a Reduction in Regulated Professions on German Skilled Crafts

As part of the “Communication on the Implementation of the Services Directive: a partnership for new growth in services 2012-2015”, the European Commission has announced a revision of Directive 2005/36/EG on the recognition of professional qualifications. Further, on October 2, 2013, the Commission presented a “Communication on the evaluation of national regulations on access to professions”.

In Germany, the term regulated professions includes all skilled crafts professions according to Appendix A of the Crafts and Trade Code (HWO). Corresponding regulations not only serve to ensure a high level of consumer protection and the provision of high-quality services, they also serve to maintain the training capacity of small companies in the skilled crafts sector. The acquisition of a ‘Master’ qualification is the decisive connector in the provision of a high-quality dual education in companies: In addition to obtaining the required specialist craftsman competence, the up-and-coming masters also learn vocational education and business management fundamentals in their master classes – the basis for successful business and training activities. At this point, the following should be noted:

Companies in regulated skilled crafts professions train approximately four times as many young people as companies in license-free skilled crafts professions. Deregulation in the course of the amendment to the Crafts and Trade Code in 2004 discernibly led to a clearly lower number of masters in the license-free skilled crafts professions. Plus there is the fact that the training activity is primarily carried out by “old companies” (existing before the deregulation), “new companies” (established after the deregulation) do hardly any training/education. Instead of lowering the obligation to be a master to a different specialist qualification, such as a completed education programme, proof of any qualification in the deregulated skilled crafts professions is completely waived since the deregulation in 2004. Thus there is no longer any incentive to acquire the necessary specialist qualifications before taking the step of becoming self-employed, and, as a consequence, the professional foundations to train young people are also missing. Therefore one is faced with the perspective that up to 70,000 training positions could be lost each year due to further decontrols.

Based on their higher level of specialist qualifications, companies in regulated skilled crafts professions exhibit a higher level of stability in the market than establishments founded by owners not possessing corresponding specialist qualifications – the average length of time on the market of companies in regulated skilled crafts professions is clearly higher.

The decisive advantage of the dual training system is training in line with the market. The educational content is directly oriented towards the market’s demands. Moreover, young people are trained in a manner tailored to suit existing needs – companies normally only provide training when they have a corresponding need for specialists. If a trainee cannot be hired by a company in the end, the certificate of apprenticeship still provides documentation of his or her practical abilities. Based on the qualifications acquired, the skills of the specialist can be assessed more easily on the labour market, since the

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qualifications were directly acquired in practical work at the company. The same applies to the title of 'Master'. In addition to the purely professional qualifications, becoming a 'Master' also entitles the holder to admission to polytechnic/university studies.

It is occasionally argued that a deregulation of regulated professions leads to growth impulses and benefits start-ups. Although the amendment to the Crafts and Trade Code in 2004 with its reduction to the access barriers in the area of start-ups had a reflationary impact, above all redistribution took place from employment subject to social insurance contributions in the direction of self-employed working conditions.

Although the number of start-ups increased due to the reduction of regulated skilled crafts professions, the sales and the total number of employees remained almost unchanged. Moreover, the start-up boom primarily concentrated on urban centres with a great deal of large-scale construction sites and just a few craft professions (above all tile and mosaic layers, interior decorators and building cleaners).

After the EU eastern enlargement, many people took advantage of the opportunity to become self-employed in Germany, to circumvent restrictions in the right of establishment and freedom of movement of workers. Thus the start-up boom is in no case to be attributed to a deregulation of regulated professions per se.

The amendment meant a strain on the social insurance systems in the license-free skilled crafts professions – conventional working conditions were reduced and replaced with Ich-AGs ('Me Incs'), solo freelancers and cheap unqualified labour. In the time period from 2003 to 2009 the average company size dropped from 11.3 to 4.3 employees (Appendix B1). This takes place massively at the expense of the social systems and has far-reaching consequences.

Whether deregulation will actually lead to the desired economic growth impact is something that cannot be scientifically resolved without a doubt. A study published by the European Commission in early 2012 for the construction trade does not arrive at a clear result.

In general, obligatory professional qualifications offer orientation in asymmetrical markets regarding consumer protection and avoidance of risks. Asymmetric information for private households and commercial partners are reduced, the transaction and information costs of an economy are lowered. Certification solutions are often pitched as an alternative. But the market is, however, already extremely lacking in transparency and marked by an overly complex certification bureaucracy.

From the viewpoint of skilled crafts, at present no need for adjustment is recognisable in the area of regulated professions on a European level whatsoever, especially since Directive 2005/36/EG on the recognition of professional qualifications was recently revised. With this directive, the goal of creating more flexible labour markets and facilitating the recognition of equivalent qualifications is already being pursued. In no way do the regulated professions in Germany currently portray a European market barrier.

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In the time period from April 1, 2012 to February 28, 2013, a total of 1,461 notices of recognition of professional qualifications were issued in Germany in the segment of regulated occupations requiring formal training. Of these, 960 notices (65.7% of all notices) announced complete equivalent recognition, 447 notices (30.6%) indicated partial equivalency. Only in 3.7% of cases (54 notices) was the equivalency completely rejected.

The temporary, cross-border provision of services is already possible at present for persons from other European member states. The intended provision of services in the regulated skilled crafts segment must solely be reported to the responsible Chamber of Skilled Crafts. If the occupation is not regulated in their country of origin and the applicants did not conclude a government-regulated training programme in that occupation, they must additionally provide proof of two years' work experience being self-employed or as operations manager.

A permanent establishment in a regulated skilled crafts profession is also possible in Germany for persons from other European member states. Proof of necessary work experience is already sufficient for this (cf. §2 EU/EWR HWV).

A 'Master' title is not necessarily required for an establishment in a regulated profession even within Germany. Journeymen of Appendix A (regulated skilled crafts professions) also have the possibility to become self-employed in Germany without a 'Master' title after working for six years in their trade (including four years in a managing position). 26,729 people have already made use of this exception between 2004 and 2010.

The so-called "owner principle" was also nullified in 2004 – the company owner thus no longer needs to have a 'Master' title; it is sufficient for him or her to hire a person with the corresponding qualifications. Further, the entry in the Register of Craftsmen was made easier for *Techniker* (~technicians) and *Industriemeister* (~foremen).

Whether continuing deregulation of the regulated professions will actually lead to the desired growth impulses is more than questionable from the viewpoint of the skilled crafts trade, especially since there is not even a consensus in the scientific community on the effects of such deregulation, and positive economic developments cannot be clearly attributed to these measures. Moreover, observations of the amendment to the Crafts and Trade Code in 2004 impressively show that the impacts of deregulation are in no case in the interest of the economy. The decreased training activity and the transformation of employment subject to social insurance contributions lead to negative effects in government budgets in the long-term (social welfare benefits/ basic financial security in advanced age). Short-term economic growth impulses are being put ahead of the long-term financial sustainability of the economy here.